

Date: 04/19/2012

To: Thomas J. Bonfield, City Manager
Through: Wanda Page, Deputy City Manager
From: Alethea C. Bell, Human Resources Director
Virginia H. Jones, Human Resources Manager
Subject: Year 2012-13 Benefits Recommendations

Executive Summary

The 2012 Benefits Recommendation strives to continue the City's reputation for providing high level benefits and service while controlling the overall cost to the employees and to the City. The efforts to maintain benefit levels without drastic rate increases are made more challenging by rising health care costs, increased usage by employees, retirees and their covered dependents and the economy. The primary goal in the administration of the City's benefits programs continues to be providing high-value benefits at a reasonable cost to the City and its employees. Increased claims experience has caused the City to make several health plan changes to minimize the health care premium increases.

Recommendation

Staff recommends that the City contract with United Healthcare (UHC) to administer its self-funded health plan for the 2012-13 plan year. The UHC Plan continues to offer programs in disease management and wellness initiatives that will help control high claims and reduce future medical risk. This plan also continues to provide copay waiver for all preventive and wellness visits to physicians and dependent coverage to age 26 regardless of status. Staff also recommends that the City contract with UHC to administer its self-funded dental plan.

Staff recommends that the City contract with Duke Occupational Mental Health Programs, as the administrator of our Employee Assistance Program (EAP). The rate for EAP is included in the rates cited for health insurance below.

Staff recommends Unum for the City's basic term life insurance and accidental death and dismemberment insurance.

Staff recommends Colonial Life as the provider of employee paid insurance products, the Laymon Group as administrator of Flex Spending Accounts and the Healthcare Reimbursement Program, and Community Eye Care as the provider for employee paid vision coverage

Staff recommends Hyatt Legal for pre-paid legal services and Liberty Mutual to provide the auto, home owners and other property insurance. Staff also recommends New York Life to provide Long Term Care insurance.

This recommendation supports Council strategic goal #4 *Well-Managed City*: Provide professional management that is accountable, efficient, and transparent.

Background

On October 15, 2011, the City of Durham, through its insurance broker, Independent Benefit Advisors (IBA), issued and advertised Request for Proposals (RFP) for all benefits products. Submissions were due by 5:00 PM on November 15, 2011. **See Attachment # 1 City of Durham 2012 Benefit RFPs Scope of Work.**

Each benefit product was reviewed by a separate RFP review committee. Recommendations from each committee were submitted to the Human Resources Benefits Manager. **See Attachment # 2 City of Durham 2012 RFP Vendor Submission List.**

On April 13, 2012 the Human Resources Benefits Manager presented the overall benefits recommendations to the City Manager. On April 19, 2012 the recommendations were presented to the Council Insurance Sub Committee.¹ **See Attachment #3 Insurance Sub Committee 04/19/12 PowerPoint Presentation.**

As with all benefit changes, the HR Department involved employees and retirees in the review and development of the benefits plans. This includes presentations to employee and retiree groups, meeting with the Department Liaison group, and review with the Council Insurance Sub-Committee, and members of the City Manager's executive team. The changes included in this recommendation will continue the City's efforts to control expensive procedures and encourage healthy life choices.

Communication is also maintained with other city and county organizations in order to learn about new ideas and ways to improve the current plan designs and reduce inappropriate premium increases.

Issues and Analysis

Health Care

Staff received 4 proposals in response to the City's Request for Proposal (**see attachment #2 for a complete list**). Staff recommends United Healthcare (UHC) as the administrator for the City's self-funded health plan for the 2012-13 plan year. Based on the self-funded projection no increase in funding is needed for the September 1, 2012 effective date. The City has positioned itself to be proactive in controlling healthcare cost. UHC will maintain a plan design that continues to promote wellness behavior with no cost for annual visits, no cost generics and rewards (activity based and compliance based incentives) for wellness activities such as health assessment completion, exercise, or disease management. If the City is going to continue to promote a well managed city, then the City must continue to strive towards being better consumers of the health plan by accepting personal responsibility for our behavior and lifestyle choices. Success can be measured in cost containment and reduction in high cost claimants as it relates to manageable diseases.

UHC will provide the City with a solution to the Duke hospital-based office visits facility fee. The solution UHC offers eliminates office visit deductibles for members when visiting Duke hospital-based facilities. Currently health plan members incur additional costs towards their deductible for office visits. Example:

Currently an employee who would go to Duke for an ophthalmology appointment would pay the \$40 co-pay as a specialist when they arrive. The only procedure the employee had was

¹The Insurance Sub Committee of Council met to hear Human Resources Benefit Recommendations on April 19, 2012. The Insurance Subcommittee is comprised of the following members: Mayor Pro Tem Cora Cole-McFadden, Councilman Howard Clement, and Councilman J. Michael Woodard.

field vision tests and an eye exam on this visit like the employee had at their optometrist's office. When the employee received the bill there would be an extra fee from the doctor of \$55.15 and \$143.00 facility charge. As a result the total amount owed by the employee would be \$238.15 (\$40.00 + 55.15 + 143.00).

Under UHC's administration the employee would only have to pay the \$40 co-pay.

Additionally, UHC's per member per month (PEPM) administrative fee includes unlimited hours of case management. Finally UHC has offered the City a three year \$50,000 wellness grant to be used towards wellness initiatives.

Employees have grasped the three level health care plan designs and over the years have gravitated from the Premium and Basic level plans to the Core Level Plan. With the inclusion of the Health Reimbursement Arrangement for hospital, surgery and other high copay services, employees notice the actual cost of the procedures and claims they are incurring and better recognize and value the contribution the City is making to their coverage. The City continues to encourage employees to seek out preventive care to maintain the highest levels of health. Education and preventive care remain two of the most important resources available to employees in diagnosing and treating medical problems early.

The 2012-13 health care recommendation maintains the strengths of the 2011-12 plan designs with important but minimal changes and will allow the City to continue to the same rate structure to plan participants.

Wellness and Disease Management

In the past employees accepted health care plans that provided coverage without much understanding of how overall cost in claims affect the premium costs that are paid by employees and the City. With increasing costs employers have sought to help employees understand the relationship better and involve them in influencing the programs that will provide them with increased choice and responsibility of the cost of the coverage. Increasing employee participation in the overall cost was emphasized as employees have shared in the increased cost in monthly premiums, copays and deductibles.

To encourage employees to take their medications, the plans will continue the \$0 co-pay for generic medications enhancement. The plans will also continue to include 100% coverage for medical supplies (includes diabetic supplies, inhaler spacers and peak flow meters). This is all intended to improve resources for those with higher risks of medical illnesses to help them better manage their care and cost. Along with this, many organizations, like ours, have also implemented programs that are focused on resources to help participants best identify future medical risk and provide resources to help them maintain and improve wellness by making healthier choices. These organizations are finding there is a considerable return of investment from \$2-\$5 for each dollar spent for wellness activities. **See Attachment # 4 BCBSNC 2011 Utilization Report the City of Durham.**

To deal with the root cause of increased claims, the plan maintains the focus on identifying and providing case management to members with chronic illnesses and also providing resources to encourage employees to make healthy life style changes. The health care plan recommendation continues and increases the City's focus on wellness and disease management resources.

UHC will administer specific (individual) stop loss (ssl) at \$225,000 with an aggregating specific stop loss (ssl) of \$250,000. When an aggregate of claims begins to add up for an individual who has reached the \$225,000 ssl and we continue to pay the claim (whether it is

on 1 or 5 claimants who reach the \$225,000 ssl) until those aggregate claims reach \$250,000. At that point all individual claims exceeding the \$225,000 level will be reinsured by UHC and would not be the City's risk for the plan year.

UHC has considerable resources available to employees and retirees that will encourage and support wellness efforts. The City supports a Wellness Committee. Staff will host a Health/Benefits Fair on June 13, 2012 in City Hall.

The City will also continue relationships with outside organizations to provide our employees with selected wellness initiatives and events. These activities currently include projects with the American Heart Association, Duke University and Durham County. The wellness program demonstrates the City's commitment to improving employee health and adds value to the benefits package.

Dental Care Plan

Staff received six (6) proposals. Staff recommends UHC as the administrator of the City's self insured dental plan. UHC was selected for several reasons, among them, the fact that it has a larger provider network, greater in-network savings (17.9% versus BCBSNC at 9.5%), a three year rate guarantee, and the administrative rate is lower. Employees pay a monthly premium for single, two-party or family dental coverage. Retiring employees are allowed to elect dental coverage for up to eighteen (18) months at full cost without a City contribution. UHC will charge the City an administrative fee of \$ 3.46 per employee per month.

Based on the self-funded projection an increase in funding of 0% is needed for the September 1, 2012 effective date.

Consolidated Omnibus Reconciliation Act of 1985 (COBRA) Administration

It is recommended that the P&A Group continue to administer COBRA for the City. COBRA is an "employee right." COBRA requires employers who employ 20 or more persons to notify employees and their insured dependents of their right to continue health insurance coverage whenever certain "qualifying events" occur.

Employee Assistance Plan (EAP)

Staff recommends the continuation of the relationship with Duke Occupational and Mental Health Services (DOMHS) as provider of the City's Employee Assistance Program. For well over 18 years the plan with DOMHS has continued to administer the City's EAP. **See Attachment # 5 EAP Utilization Report.**

Basic and Supplemental Term Life Insurance

Staff received 12 proposals in response to the City's Request for Proposal (**see attachment # 2 for a complete list**). Staff recommends Unum Life. Under this recommendation the City paid, Basic and Supplemental Term Life Insurance will continue to be provided by Unum. All eligible employees receive City-paid, term life insurance in the amount equal to their annual salary. Unum has proposed a 12% reduction in the City's cost. Rates are guaranteed for three years. Employees may select additional, employee-paid, supplemental coverage for themselves and/or dependents. Through UNUM, the City will continue to offer 3 options for additional term life insurance.

Retirees and employees leaving employment with the City may elect to convert the group term life insurance to individual private plans paid for by the retiree or former employee. Disability retirees are granted one year of term life insurance paid for by the City.

Long Term Disability/Short Term Disability

Staff received 12 proposals in response to the Request for Proposal for long term disability and 11 proposals in response to the Request for Proposal for short term disability. Under this recommendation long term disability coverage will continue to be offered by Unum at reduced rates. Rates are guaranteed for three years. Through UNUM, the City will continue to offer two options for long term disability insurance.

Unum is also recommended as the provider of short term disability coverage. It offers this insurance with no pre-existing condition clause with a two year rate guarantee.

Flex Spending and Other Employee Paid Benefits

a. Flexible Spending Accounts (FSAs)

Staff received nine (9) proposals in response to the Request for Proposal for administration of flexible spending accounts. It is recommended that the Laymon Group continue to provide the administration of the Section 125 Flexible Spending Account Plan. Flexible Spending benefits allow employees to pre-tax the cost of health, dental and vision insurance premiums, and to set up special spending reimbursement accounts to pay for specified uncovered medical expenses, dependent care expenses and eligible parking expenses. The plan offers participating employees the option of using a debit card to pay for eligible medical and dependent care expenses.

b. Healthcare Reimbursement Arrangement (HRA)

Staff received nine (9) proposals in response to the Request for Proposal for administration of the healthcare reimbursement arrangement. It is recommended that the Laymon Group continue to administer the City's Health Reimbursement Arrangement (HRA) for the health care plan deductibles related to hospital visits, out-patient surgery, medical testing and durable medical equipment expenses. Employees and retirees will be reimbursed \$250 when they submit the evidence of benefits for the deductibles. Based on the plan level employees and retirees will be reimbursed as follows:

\$250 of the \$500 for the Premium Level Plan,
\$250 of the \$750 for the Core Level Plan, and
\$250 of the \$1,500 for the Basic Level Plan

Employees and retirees are asked to voluntarily complete the UHC Health Assessment to receive the reimbursement benefit. Employees and retirees will receive notice that voluntary completion of the UHC health assessment must be done between 09/01/12 and 12/31/12 in order to qualify for the health reimbursement arrangement. New Employees will be given 45 days from the date of hire to complete the health assessment. The completion of the health assessment will continue to be an annual requirement. This excellent benefit further encourages employees to become involved in wellness activities that will have an effect on improving health and reducing claims.

c. Vision

Staff received four (4) proposals in response to the Request for Proposal for voluntary vision. It is recommended that Community Eye Care (CEC) continue to offer single, two-party or family vision coverage with no increase in rates for the 2012-13 benefit period.

d. Voluntary Benefits

Staff received six (6) proposals in response to the Request for Proposal for worksite benefits. It is recommended that Colonial continue to offer voluntary, employee-paid insurance products, including accident, cancer, critical illness, term life, group universal life, and hospital confinement indemnity.

e. Long Term Care Insurance

Staff received two (2) proposals in response to the Request for Proposal for long term care coverage. It is recommended that Mattioli & Associates continue to offer long term care insurance for the 2012-13 benefit period.

f. Auto and Home Owners Insurance

Staff received two (2) proposals in response to the Request for Proposal for auto and home coverage. It is recommended that Liberty Mutual Insurance Company continue to provide employees with auto, homeowners, renters and umbrella insurance. This benefit is voluntary and employee paid.

The current employee participation in all the City benefits is provided in **Attachment # 6 Current Benefit Participation.**

Communication

Throughout the year, the HR Department has communicated with employees on the comprehensive benefits plans offered by the City. This communication has taken the form of visits to departments by the Health Strategies Coordinator, the Benefits Manager, and all-user e-mails to employees on how to get the most out of City benefits and

The Department Liaison Group continues to meet regularly to discuss, among other things, benefit plans concerns and initiatives. Employees are then asked to take information back to their respective departments to provide information to their co-workers. The benefits information provided to employees throughout the year by the Departmental Liaison Representatives is intensified during the City's Open Enrollment (OE) period to ensure employees are completely informed about the benefits and choices available during OE.

An Employee Benefits Summary Guide that will contain information about benefits, HR contacts, frequently asked questions and discounts will again be offered to employees and their families. Additionally, HR will make benefit presentations to increase understanding of the future benefit offerings and open enrollment process.

To heighten the awareness and appreciation of the benefits plans, the HR Department provides a 4-hour presentation, question and answer, and enrollment session during the week-long New Employee Training (NET) process. This once-a-month training session for new employees allows HR staff and vendors the requisite time to give thorough explanations of the City's core benefits and voluntary benefits. Further it allows time to assist new employees in selecting the most appropriate benefits. These extended training opportunities are designed to give new employees an appreciation for the tremendous investment that the City has made to provide excellent benefits for its employees.

Continued Improvements to the Open Enrollment Process As was the case last year the 2012-13 open enrollment process will be a dual process.

a. Web-based on line open enrollment

Our insurance broker, IBA, will continue to fund the cost of the web-based on-line open enrollment process that will be utilized for enrollment in health, dental, life, long term disability, vision and flexible spending accounts, and pre-paid legal. Employees with access to computers whether at work or at home will be able to enroll in the above-mentioned benefits on their own during the open enrollment period.

Staff will also be available to assist with web-based open enrollment within departments throughout the open enrollment period. In addition, employees without assigned computers will be able to use computer kiosks at some sites. All employees and retirees (medical only) will again be notified and provided with directions on how to use the web-based open enrollment system. Training will also be made available. For those employees who do not want to make benefits changes, no use of the web based system will be needed unless flexible spending account initiation is desired. Staff will also strongly encourage employees and retirees to attend Employee Benefit Presentations to familiarize themselves with the changes in the plans to prepare for the Open Enrollment process. This process ensures minimal inconvenience to employees and reduces the disruption of work within the departments.

b. Colonial Enrollment

Employees who want to purchase Colonial products will still have opportunities to meet with Colonial enrollers should they chose to do so. For those employees with current Colonial coverage who do not want to make a change, no meeting with a Colonial representative will be needed. This process further ensures minimal inconvenience to employees and reduces the disruption of work within the departments.

Alternative

An alternative to Staff's health care recommendation is to remain with the current provider. Staff does not recommend this option.

Financial Impact

Health Care

The financial impact of this recommendation is related to the monthly premium that employees and retirees will be required to pay due in part to the City's self-funding strategy. Last year the increase in funding was 5% and the Employee/Employer contribution percentages remained the same. This will be the first year that monthly premiums will not change for the vast majority of plan participants. **See Attachment #7 City of Durham Health Care Rate History.**

Based on the self funding strategy, the City has set the employee premiums to encourage employees and retirees to make their selection of health care plan based on their need. The premium cost and City/Employee costs are listed below for each of the health care coverage plan levels.

Self-Funded Monthly Rates:

<u>UHC Health Care Plan</u>	<u>Total Prem</u>	<u>City Cost</u>	<u>City %</u>	<u>Employee Cost</u>
<u>Premium Plan</u>				
Single	\$640.50	\$572.25	89%	\$68.25
Two Party	\$1,140.30	\$772.64	68%	\$367.66
Family	\$1,701.00	\$1,079.87	63%	\$621.13

Core Plan

Single	\$572.25	\$572.25	100%	\$00.00
Two Party	\$936.60	\$772.64	82%	\$163.96
Family	\$1,495.20	\$1,079.87	72%	\$415.33

Basic Plan

Single	\$522.90	\$522.90	100%	\$00.00
Two Party	\$898.80	\$772.64	86%	\$126.16
Family	\$1,368.15	\$1,079.87	79%	\$288.28

The health care insurance premium rate charged to employees includes the coverage for UHC and the administrative fee for Duke EAP.

The City of Durham health care premiums are “experience based” and driven by the actual claims that are paid by the vendor for our employees, retirees and their dependents. The premium rates charged by other city and county organizations do not affect the rate the City is charged by vendors. For comparison purposes the monthly premium rates for other similar jurisdictions are provided. **See Attachment # 8 City/County Rate Comparisons.**

Dental Care Plan

The administrative fee paid to UHC for the self-funded plan will be \$2.96 per employee each month for 2012-13. Premiums paid by employees for dependent care are listed below.

Self-Funded Monthly Rates:

<u>Dental Care Plan</u>	<u>Total Prem</u>	<u>City Cost</u>	<u>City %</u>	<u>Employee Cost</u>
Single	\$40.00	\$27.00	67%	\$13.00
Two Party	\$69.00	\$40.00	58%	\$29.00
Family	\$117.00	\$40.00	34%	\$77.00

SDBE Summary

It is a mission of the City to increase minority participation in the vendorship of the City's benefits programs. Human Resources and the Equal Opportunity/Equity Assurance (EO/EA) Department staff work closely with current vendors to help increase minority participation and the appreciation of diversity. EO/EA has reviewed the information for all of the vendors represented in this recommendation.

The EO/EA department collects quarterly EEO statistics from vendors. EO/EA has determined that recommended vendors are in compliance with the Ordinance to Promote Equal Business Opportunities in City Contracting. The compliance report from EO/EA has been submitted by staff. **See Attachment #9 SDBE Requirements.**

Attachments

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|---------------------------------|---------|
| 1. Benefit Request for Proposal | 2 pages |
| 2. Vendor Submission List | 1 page |

3. Council Insurance Subcommittee Presentation	6 pages
4. BCBSNC Utilization and Expense Report	47 pages
5. Employee Assistance Utilization Report	1 page
6. Benefit Participation Numbers	3 pages
7. City Healthcare Rate History	3 pages
8. City/County Rate Comparison	5 pages
9. SDBE Requirements	3 pages